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CHILTON'S

AUTOMOTIVE INDUSTRIES

APRIL 1987

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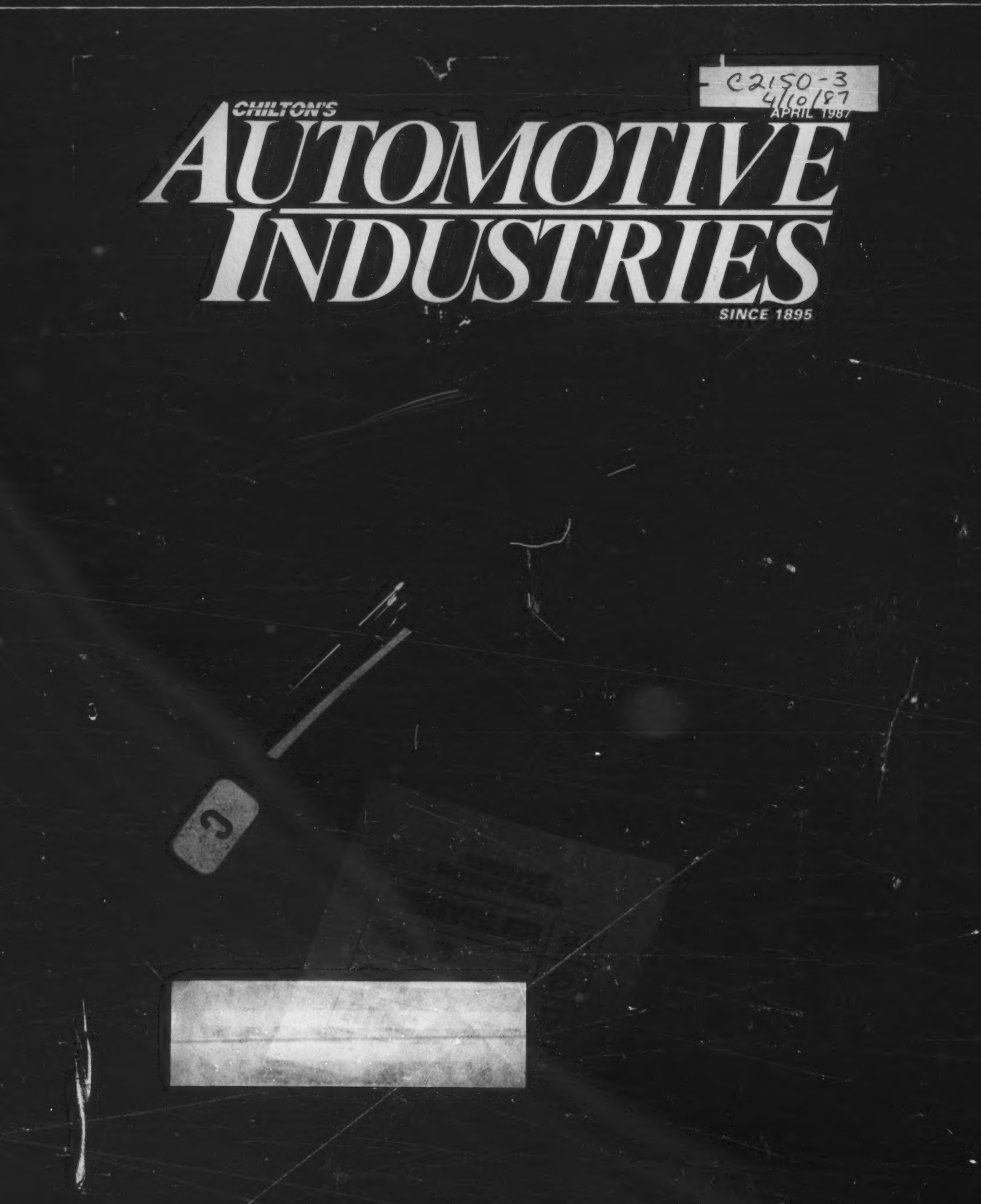

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1986 INDUSTRY REPORT CARD

AI's exclusive look at billions of dollars and millions of vehicles.

by John McElroy

It was the best of times, and the not-so-best of times. When the books were closed and all the numbers added up, 1986 turned out to be the best sales year for cars and trucks in the American market. There were 16.3 million vehicles sold in the US last year, including 11.4 million cars and 4.9 million trucks. (Remember back in 1982 when only 10.5 million vehicles were sold and everyone said the market would never come back?)

But sales records aside, it turns out that the American car companies actually sold more cars in 1964 than they did last year. And though it was the third best year for truck sales, 1986 also represents the first time that 1 million foreign trucks were sold in the US market, more than twice the 1980 total. So to put the sales records in perspective and turn to more objective yardsticks to measure domestic automaker performance, ***AI*** presents the 1986 Industry Report Card.

Our faithful readers will remember how each company is graded. First we dig through several years of annual reports to develop trend lines for specific categories. Then we grade each company according to these trend lines, with particular emphasis on the most recent results. What we're looking for is whether a company is improving, going nowhere, or starting to sink. We don't compare one company to another. We compare it against its own efforts. And to put everything in perspective, we also include some data from foreign manufacturers to establish who is the world-class leader of each category.

Chrysler earns an "A" in '86 product quality, fields new LeBaron for '87.

Chrysler: Best in Class

For the second year in a row, Chrysler has come out at the top of the class. The Pentastar people are running one very well-oiled machine, and they made big improvements across the board. In the Quality category, which is based on J.D. Power's Customer Satisfaction Index, it took a big step forward and earned an "A". Coincidently, Chrysler's improvements in the Productivity and Inventory Turns categories are factors that would also have a positive impact on quality, which reinforces the fact that their improvement here is no fluke.

On the face of it, the "A" we awarded Chrysler for Profit-per-Unit may seem out of place. The numbers suggest Chrysler has slipped in the last three years. But you have to remember that the company paid no taxes in 1984, and didn't carry a full tax load in 1985, either. Keeping that in mind, their Profit-per-Unit of $1057 in 1986 actually represents an

CHRYSLER

CATEGORY	1973	1978	1984	1985	1986	GRADE
Quality	–	–	90.3	77.3	89.6	A
Profit/Unit	$131	($129)	$1210	$1080	$1057	A-
US Market Share	15.6%	11.2%	11.9%	11.8%	11.7%	B-
Return On Sales	2.1%	(1.5%)	12.1%	7.7%	6.2%	C
Productivity	13.0	13.0	18.1	17.0	19.8	A+
Inventory Turns	5.6	6.3	14.5	18.8	22.1	A+

OVERALL GRADE—B+

Ford's Taurus: The big gamble has paid off handsomely.

improvement and proves that it is by far the low cost producers amongst the domestic automakers.

Chrysler has also seen its market share slip in the last three years. But we still gave them a "B" for their performance. Why? Because anyone who could just hold their own in the dogfight that took place last year did very well indeed. And remember that Chrysler had to shut down its Warren, MI truck plant for three months as part of its conversion to Dodge City. If not for that, the company probably would not have lost any market share. Its acquisition of AMC should increase Chrysler's total market share about three percent in next year's Report Card.

It was the company's "C" in Return on Sales that prevented it from getting an overall "A" grade average. Though sales increased $1.3 billion compared to 1985, costs increased $1.5 billion. Presumably, this slight decrease in efficiency is related to the cost of low-rate financing the company offered throughout most of 1986.

The last two categories—Productivity and Inventory Turns—are where Chrysler really came through with flying colors, earning an "A+" in each one. We measure productivity as the number of vehicles built per employee per year. Not only did Chrysler make major improvements here, it actually has the best productivity of any American automaker, with nearly 20 cars per employee per year. But Toyota—including unconsolidated subsidiaries—holds the world-class title for productivity with a total of *45* cars per employee per year.

The same goes for Inventory Turns, which is a measure of a company's application of just-in-time (JIT) production. The more turns, the less inventory—and as anyone in manufacturing will tell you, that has a very positive impact on quality. Chrysler rates the best of all American automakers with more than 22 turns, but Toyota holds the record with *125* turns!

Ford: Routine Improvement

When it comes to Quality, the star student in *AI*'s Industry Report Card is the Ford Motor Company. But remember, we're grading each company compared to how it did in years past, not how

MAKING THE GRADE

FORD

CATEGORY	1973	1978	1984	1985	1986	GRADE
Quality	–	–	113.6	95.3	104.5	A
Profit/Unit	$273	$424	$755	$644	$847	A+
US Market Share	29.8%	26.5%	22.7%	20.3%	21.2%	A+
Return On Sales	3.9%	3.7%	5.5%	4.7%	5.3%	C
Productivity	13.7	13.7	15.6	16.4	16.8	B
Inventory Turns	5.3	6.5	14.5	14.8	13.8	D

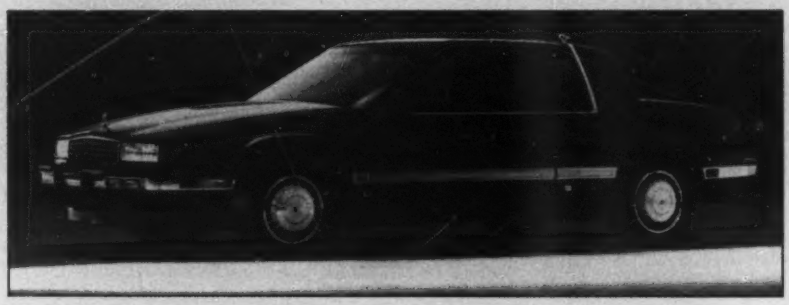
OVERALL GRADE—B

it compared to others. And though Ford still hasn't matched the score it achieved in 1984, it made such a quantum leap forward in 1986 with its score of 104.5 that we awarded the company an "A". But the overall winner here is Honda, which tops Power's CSI list with a score of 132.

Ford's Profit-per-Unit increased so dramatically that if the company applies its policy of continuous improvement to this category, it's going to catch Chrysler by this time next year. And you have to remember Ford achieved this on a worldwide basis, which includes markets that are probably not very profitable at all. Naturally, such a stellar improvement earned it an "A+".

The same goes for Ford's increase in market share. At a time when nobody but the imports seem to be increasing market share, it comes as a welcome change to see a domestic automaker do so well. Plus, Ford should be able to increase its market share by three percentage points in the next few years with the Mexican Tracer, Korean Festiva, European Scorpio and Flat Rock-built Mustang. In the meantime, Ford is capacity constrained—it sold every car and truck it could build. No doubt about it, the public really likes what Ford has to offer and that's the best stamp of approval any company could hope for.

But when it comes to Return on Sales, Ford doesn't seem to be making much headway. The company may have taken in more money than it ever has before—enough, in fact, to award each of its UAW workers $2100 each, but it also saw its costs increase more than ever before. That's why we gave it a "C".



Lackadaisical sales of GM's E- and K-bodies have hurt the General.

The company's policy of continuous improvement served it well in the category of Productivity, but frankly, we were surprised not to see a more dramatic improvement. With its plants operating at capacity, one would have expected the kind of increase that Chrysler achieved. The same goes for Inventory Turns. With its plants running full-out, Ford should be able to stabilize its production schedule which is a key requisite for JIT. Instead, it appears that Ford is allowing its inventory levels to pile up again, a policy that could get it into trouble if not remedied.

GM: Bad News Bears

Reflecting the problems that have afflicted it lately, GM slipped dangerously from the overall "C+" it earned last year, to a "D" this time around. Worse still, we don't see anything changing at the giant automaker that will improve its fortunes soon. At this point in time we would have expected to see the company's reorganization have a positive impact on productivity, or to see the acquisition of EDS produce efficiencies that would flow to the bottom line. This clearly hasn't happened.

GM's Quality rating has really gone nowhere in the last three years, and the fact that its Productivity and Inventory Turns haven't improved either helps explain this stagnation. But it's the poor performance of GM's financial figures that are truly shocking. The trends in the Profit-per-Unit and Return on Sales categories don't bode well for the future. Nor, for that matter, does the corporation's loss in Market Share. Low finance rates of 2.9% that were used to move slow-selling models throughout the year must have cost GM a bundle. Will the corporation's 6 year/60,000 mile warranty prove to be a big drain, too?

There's not much else to say about GM's performance. But when we look a little bit farther out, we hope the new Corsica/Beretta, GMT400 and GM10 programs will improve things in time for next year's Report Card.

GENERAL MOTORS

CATEGORY	1973	1978	1984	1985	1986	GRADE
Quality	–	–	91.2	92.6	92.4	C
Profit/Unit	$481	$667	$666	$466	$157	F
US Market Share	51.5%	47.3%	39.1%	40.3%	38.4%	F
Return On Sales	6.7%	5.5%	5.4%	4.1%	2.9%	F
Productivity	11.4	12.0	11.5	12.7	12.2	C
Inventory Turns	5.4	6.7	10.3	11.9	11.7	C

OVERALL GRADE—D

AMERICAN MOTORS

CATEGORY	1973	1978	1984	1985	1986	GRADE
Quality	–	–	51.5	65.0	86	A+
Profit/Unit	$147	$101	$35	($320)	($317)	F
US Market Share	3.5%	2.3%	2.8%	1.9%	1.7%	D
Return On Sales	4.3%	1.4%	.36%	(3.1%)	(2.6%)	D-
Productivity	18.2	17.1	18.1	14.7	13.3	F
Inventory Turns	7.2	6.4	15.5	15.6	15.3	C

OVERALL GRADE—D

American Motors: Not Failing!

American Motors Corporation

Perhaps the most astonishing aspect of AMC's performance is simply that the company is still hanging on. With such tenacity, perhaps AMC's president Joe Cappy should be referred to as Joe Scrappy.

As bad as AMC has done, it never earned an overall failing grade with the Industry Report Card, even though a "D" is nothing to feel good about. And now that AMC is going to be absorbed by Chrysler, you might even say that it hung on long enough to be rescued—again.

AMC's Jeep range should help bulge Chrysler's bottom line next year.

Measuring Up

The grades in this year's Report Card are a good measuring stick for assessing the competitive position of each company and how it will perform in 1987. Of course, this fall's contract talks between the UAW and Ford and General Motors could have a significant impact on either or both companies' performance.

So far, 1987 seems to shaping up as a soft sales year. Any company facing a strike that causes a significant loss in production is likely to lose market share that it may never regain. And any company that, in order to avoid a strike, caves in to high-wage demands from the union, including the 3% annual improvement factor (AIF), is likely to see its competitiveness dwindle in the long run.

If so, GM really has its work cut out for it.

Ford and Chrysler seem to be financially well-positioned to weather any storm. But they still have a way to go to match the companies at the head of the class in Quality, Productivity and Inventory Turns.

But as the Report Card shows, they're getting more competitive all the time. AI

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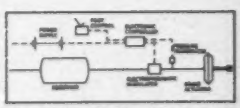

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June/July features the latest in electronics for trucks/heavy equipment.

Drawing Lines About Counting Trucks

by John Stark

There's a minor imbroglio brewing about changing the categories used to keep track of the US truck business.

Several OEMs are in favor of reclassifying commercial vehicles, as are some major suppliers. There's a negative, things-are-fine-as-they-are reaction from others.

Freightliner Corp., and its outspoken chairman and CEO Peter Rupp, are chief proponents of truck reclassification. They'd like to see a profound change in the method vehicles are classified "clean up" the industry's retail sales counting.

Overhaul of truck classification would enable vehicle producers and parts suppliers to more accurately plan annual plant capacity utilization, forecast future market trends, improve inventory management and offer the US government a better data base for making regulatory decisions are made, Rupp argues.

Medium and heavy-duty trucks are currently classified as Class 6, 7 or 8 vehicles according to gross vehicle weight. Class 6 falls in the 19,501-26,000 lb (*8833-11,800 kg*) category. Class 7 stands at 26,001-33,000 lb (*11800-15,000 kg*) and Class 8 represents units with 33,001 lb and over. Sales data is reported to the Motor Vehicle Manufacturers' Assn.

Last year, commercial truckmakers reported to the MVMA that they'd sold 44,532 Class 6 vehicles but unit registrations came in at 50,200—a 5668 truck differential. Class 7 truck sales stood at 100,278 vehicles compared to 86,700 registrations, a 13,578 truck difference.

Class 8 unit turnover amounted to 112,871 vehicles versus registrations of 114,575 trucks, a 1704 unit differential.

Rupp says the present method of classifying trucks "is archaic," noting that "some of the trucks could be classified as 7s or 8s," depending on producer preference.

Proper classification is important because the truckmaking industry—as well as the Eatons and Rockwells—plan future outlooks in terms of capacity, people, designs, etcetera.

John Stark is editor and publisher of Stark's Off-Highway Ledger.

"If the industry has refined data in Class 8 and found that up to 10,000-15,000 Class 7 trucks were included in Class 8, then reversed later, you don't get a consistency of data base," Rupp says, adding that current truck classification "is arbitrary, incomplete, obsolete and stinks." Shifting Class 7 trucks into Class 8 and vice versa "is sometimes done by manufacturers to kind of give a better picture of Class 7, if they're high; or of Class 8, if they're low," he explains.

Mack Trucks chairman and CEO Jack Curcio agrees that a change in classification methods is needed, but he's unsure what the replacement should be. At Ford Truck and Navistar International, the general feeling is that the current system is just fine. A company-by-company analysis of reported retail sales versus registration by type of truck shows the largest volume differentials occured at Ford and Navistar.

Rupp says discrepancies in the reporting of unit retail sales in the US truck business is "statistical dilemna. To show true trends in sales of class 6 versus 7 versus 8," he says, "you need accurate retail sales figures. The current sales figures have a lot of mystery in them. It gets refined when you get the registration figures. But the registration figures are 4 to 5 months late. In business, 4 to 5 months is a long time."

Rupp thinks that a new method should be devised by the SAE "as quickly as possible" to reclassify trucks, and then recommended to the US government. According to Rupp, Freightliner had conversations with SAE in the 1987 first quarter. "SAE is extremely interested in our suggestion," he reports. "I have high hopes that SAE will act."

Trucks could be differentiated by such things as weight, axle locations, fifth wheel, cab and chassis, he says. The current classification system, in Rupp's eyes, is not "a total and full disaster" when used for annual plans on capacity. But, he says, it makes meaningful analysis almost as bad as some of the government statistics. ■

US TRUCK REGISTRATIONS VS. RETAIL SALES

	1986 Registrations			1986 Retail Sales		
	Class 6	Class 7	Class8	Class 6	Class 7	Class 8
Ford	11,970	29,950	10,900	12,643	32,624	11,286
Freightliner	--	-17,400	--	-17,473		
General Motors	13,650	28,480	7440	14,199	29,024	7760
International	19,950	21,860	26,725	12,789	31,930	26,303
Kenworth	--	--	10,935	--	--	10,457
Mack	2285	2355	17,190	2623	2678	17,247
Mercedes-Benz	2010	1670	--	2087	1929	--
Peterbilt	--	--	10,175	--	--	9992
Volvo-White	--	1385	10,535	--	1459	11,361
Others	335	1000	3275	--	20	992
Total	50,200	86,700	114,575	44,532	100,278	112,871